

## FLOOD INSURANCE: LOVE TO HATE IT

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Since 2006, the United States Government Accounting Office (GAO) considers the National Flood Insurance Program (NFIP) a high-risk program due to its outstanding debt of nearly \$20 billion along with continued operational and managerial challenges. The long-term solvency of the NFIP is clearly at risk and many question the effectiveness of the program and its path forward. Thus, reforming the NFIP is crucial. To explore potential reform avenues, the Federal Emergency Management Agency (FEMA), which administers the NFIP, initiated “Rethinking the NFIP” – a review effort to balance actuarial soundness with flood risk coverage, affordability, economic development and floodplain management. This reform and review process follows a top-down process with a designated NFIP reform working group consisting of Federal Insurance and Mitigation Administration (FIMA) staff spear-heading the development of program evaluation criteria and alternative policy strategies. Many of the currently proposed reform ideas center on adjusting premium rates, increasing program participation, and/or partial privatization.

To gather input from local communities regarding the socioeconomic impacts of flood insurance and flood mapping, Louisiana Sea Grant funded a two-year study surveying local stakeholders, business owners, and homeowners. The study explored issues surrounding NFIP participation, acceptance and perception along with local flood awareness, and so forth. The study design consisted of geocoded structured surveys and semi-structured interviews. Approximately 6,000 surveys in six coastal Louisiana parishes were geocoded and distributed with a return rate of 17 percent. Data analysis included (spatial) quantitative and qualitative techniques.

Our preliminary findings suggest that most surveyed communities experienced an increase in flood risk from old flood insurance rate maps to the new digital flood insurance rate maps. Despite these significant increases in flood risk, about half of the respondents were only slightly or not all familiar with the NFIP, which was also reflected in the large degree of unawareness regarding residents’ flood zone designations. Nearly half of the respondents considered flooding an inherent part of their environment but nearly equal shares of respondents found themselves capable of dealing with flood issues on their own and/or consider their local knowledge and experience at least as or even more valuable than technical flood studies. Only slightly less than half of the respondents considered flood insurance worth purchasing and a large share of participants indicated that flood maps did not accurately reflect flood risk. Overall, many participants and stakeholders were highly ambivalent regarding the benefits of the program and the regulatory requirements and challenged the costs and effectiveness of the program.

This restrained attitude towards the NFIP in high-risk areas despite vast monetary payouts in comparison to other states suggest that any increases in premiums without

significant changes in program administration and management could dampen insurance participation and further erode acceptance of the program. We would therefore suggest exploring radical adjustments to the program such as revisiting the role of flood maps, claim history and insurance requirements.

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